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## Business Opportunity

Spotting a business opportunity is much more than simply coming up with a good idea. To know that your idea will be successful you must

- Identify a business opportunity
- Consider the finance options available
- Calculate profitability for your business
- Source suppliers
- Investigate the legal implications of setting up your business
- Look at existing competitors
- Analyse your customer needs

## **Businesses**

In the UK there is about 1 business for every 13 people living in the UK, these business range from the large organisations such as Tesco to your nextdoor neighbor making and selling cakes for children's birthday parties.

### **Small Businesses**

Businesses are constantly being started and closed.

200,000 businesses created in the UK each year

1 in 10 will close in the first 12 months

1 in 3 will close within 3 years

50% (or more) will close within 5 years

### **Purpose of a business**

Businesses exist to make goods and provide services.

70% of businesses in the UK provide services

8 out of 10 people work in service industries

### **Production**

Businesses make their goods and services by buying materials and combining them to make products or deliver a service.

Equipment - the physical product that is sold or used to provide the service

Raw materials - the petrol to run a vehicle, the electricity to power a computer

Time - labour - the workers are the most important part of any business

### **Suppliers & Customers**

Suppliers are the people who the business buys from.

Customers are the people the business sells to.

### **Markets**

The market is where a business exchanges its goods/services to customers. Markets can be split into segments. GHD hair straighteners are sold in the woman's hair market - the segment may be said to be women from 13 to 45.

## Understanding Customer Needs

A customers needs are the things they want to satisfy them. This may be cost, location, convenience, range, quality, service etc. Before starting any business it is important to understand your customer needs in order to give customer satisfaction.

## Market Research

Before starting a new business the market should be carefully researched to establish if there is a need for the business, who the customers might be and what they are likely to pay for your goods/services

**Primary research** - New information which you gather yourself. May include

- Surveys
- Questionnaires
- Focus groups
- Observations
- Experiments

**Secondary research** - Information which is already available. May include

- Finding similar businesses
- Looking for online competitors
- Reading local newspapers
- Looking for demographic information about your customers

## Data Types

Qualitative data - This is opinions, judgements & attitudes

Quantitative data - Data which can be analysed - yes/no answers, ratings etc

## Direct Customer Contact

Once the business is up and running the owner must listen to customer feedback as this will be vital in giving them market knowledge.

## Interpreting Data

Once a business has gathered data it must analyse it and draw conclusions from the results. If the qualitative data reveals any needs/desires the business has not anticipated the business should act upon it. The overall results should confirm if the anticipated demand for the business really exists.

Please answer all questions as fully as possible

*\*Required*

What Gender are you \*

Male ▾

Do you have children \*

Yes ▾

Do you enjoy spending time with your children? \*

1 2 3 4 5

Hell No they bore me silly ○ ○ ○ ○ YAY - I live for my children

What are your fave activlites with your child \*

☐ Playing in park

☐ Craft

☐ Nature walks

☐ Sleeping!

Submit

## Market Mapping

The process of looking at the potential customers and competitors to match up needs/desires across market segments.

### Analysing the customer

Start by finding out

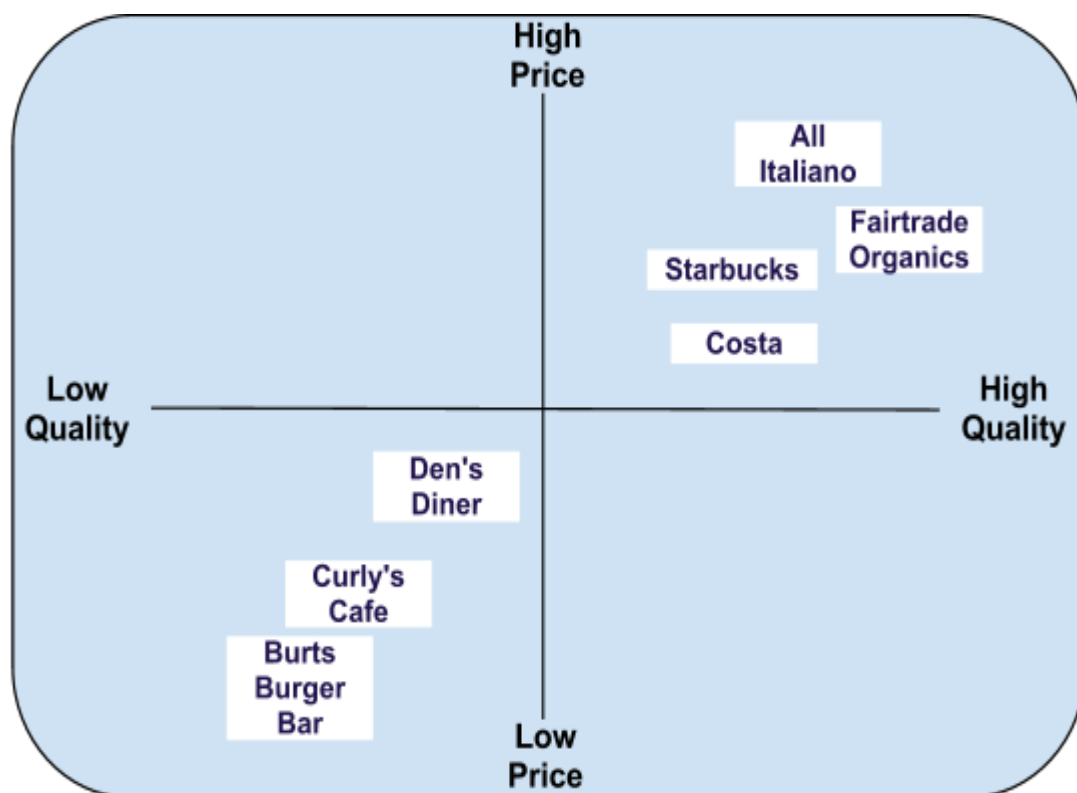
- Who are the potential customers
- What sort of product/services they would buy
- What sort of prices they are prepared to pay
- When would they want the product/service
- How often they would want the product/service
- If you can identify the buying habits of the customers

### Market segments

Groups of customers who have similar buying habits. This may be broken down by age, sex, ethnicity, religion, income, area, socio-economic group

### Market Mapping

Often a drawn map with the crosses of quality and price to position competitors and identify the nearest competitors or help pinpoint your position in the market.



### Market Gaps

Where there is no business serving the needs of customers for the product/service.

## **Competition**

Other businesses offering a similar product/service.

### **Analysing the competition**

A new business should look at the following points and analyse the offerings across their competitors

- Product range
- Quality
- Design
- Selling experience
- After-sales service
- Price
- Brand image
- Suppliers

### **Strengths & Weaknesses**

From the analysis of the competition a business owner should be able to identify their strengths and weaknesses - these will help the business owner see any gaps or saturation in the market.

## Added Value

Any business needs to add value to their product or service. The source of the added value can vary -

- Quality
- Design & formula
- Convenience
- Speed & quality of service
- Branding
- Unique Selling Point

### The importance of added value

It is the added value that becomes the profit margin - the difference between the cost of the product/service and the selling price.



## Franchising

A franchise is where a business start up has bought a license to sell a product/service on behalf of a bigger, well known company. Some franchises on the high street include Starbucks, Subway, McDonalds, Toni & Guy and BSM.

### Advantages

There are many advantages to franchising including

- Training
- Equipment
- Materials
- Finding customers
  - Advertising
  - Listing on company websites
  - Sponsorship
- Back-up services
- Brand
- Exclusive area

### Costs to the franchisee

The average starting cost of a franchise is around £250,000. Usually there is an up front cost for buying the license then an ongoing fee or percentage as the product is sold. Supplies usually have to be purchased from the parent company too.

### Disadvantages

Although there is a reduced risk and much support given there are drawbacks such as

- High initial investment
- Can't sell without permission
- Franchisor has the right to end the arrangement



## Enterprise

Certain skills are needed in order to be enterprising. An Entrepreneur will need to think creatively to develop a competitive advantage and may have to take a risk to bring a new product/service to market. They may need to raise finance, show innovation and literally be willing to put everything on the line for their ideas.

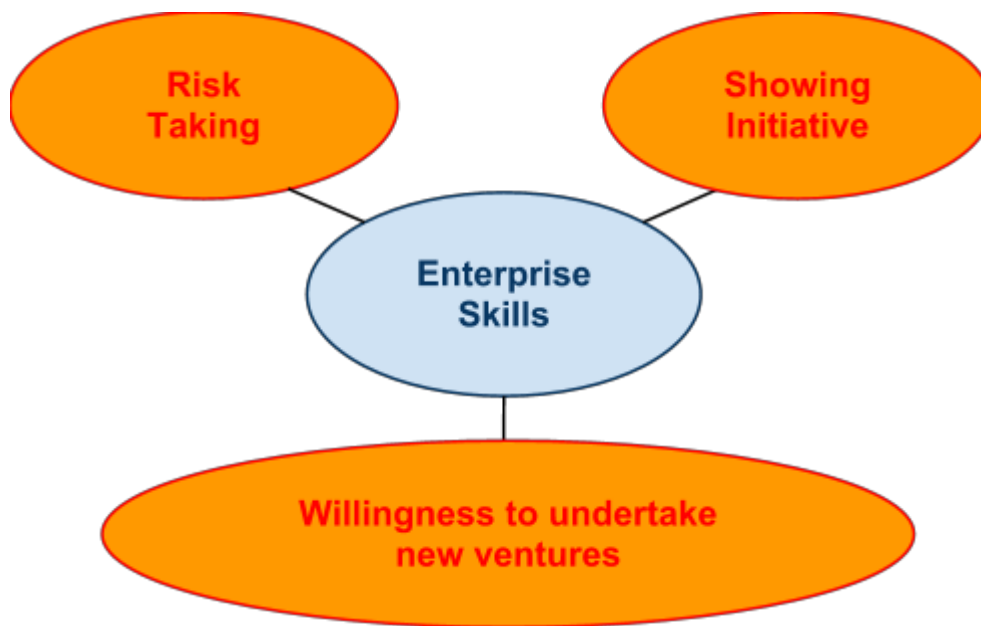
## Enterprise

Any business is an enterprise but some are creating using enterprise skills.

### Enterprise

An entrepreneur clearly shows enterprise skills by setting up business(es) by setting up new ventures, taking risks and showing initiative. These are enterprise skills

- Risk taking
- Showing initiative
- Undertaking new ventures



### Goods

A good is both tangible and physical, it can be seen and touched and buying a good means you walk away with something you now own.

### Services

A service is an intangible product which cannot be touched. Services include education, health care, transport etc.

## Thinking Creatively

Lots of businesses copy ideas which may not be enough to create a successful business. A franchise is also a copy of an idea. Thinking creatively means coming up with a new idea and developing that unique idea to create a competitive advantage. A competitive advantage is not easily copied but means that a business is better in at least one way than its competitors. Examples of how a business might have competitive advantage could be:

- A better product
- Better production, resulting in lower costs or better quality
- Better than rivals at selling
- Gives better customer service
- Uses a unique technology or service in production
- A unique product or service

## Deliberate Creativity

Most creative thinking happens accidentally and often these ideas are not used in an organised way. Using different methods of thinking techniques to stimulate ideas is deliberate creativity.

**Lateral thinking** - is about producing ideas that would not come up in the normal thought process by thinking “outside the box” and using other techniques that promote lateral thinking.

**Blue skies thinking** - working individually you would start with an idea, object or question then write down anything that pops into your mind whilst looking/thinking about it. After a set time or when everyone has run out of ideas you analyse your ideas to work out which are important, what could be used to move your idea forward etc.

**Six thinking hats** - this is a technique that helps you organise and focus ideas you have come up with. A group tries each hat in turn to flesh out their ideas

- White hat - explores the facts
- Red hat - looks at emotions and gut feelings
- Black hat - evaluates the problems and difficulties of an idea
- Yellow hat - sees the positives of the idea
- Green hat - the creative approach to getting round problems, maximising benefits
- Blue hat - thinking about thinking, the facilitator driving the process will be blue hat thinking, everyone in a group will be involved in blue hat thinking at the start looking at what they want to achieve and at the end



## Questions

All entrepreneurs should ask themselves questions - this allows them to explore alternatives, sort out issues and get what's best for the business.

### Why?

Why do you want to start a business, is it to earn more money, achieve job satisfaction, get a better work/life balance?

### Why Not?

Why not start a business in an established field? Or in a field where you have experience?

### What?

What do you want to do? What interests you? What uses your skills?

### How?

How will you go about starting the business. How will you produce the product/service? How will you market your business? How will you earn a profit?

### Where?

Where will you start your business? Where can you get help/advice? Where can you buy stock?

### When?

When could you start the business?

### What if?

What if is where you look at the many variables involved in running your business. What if you didn't make money straight away? What if you were ill? What if your customers didn't like your product/service?

Whatever decision you make when starting a business should be made after doing a what if analysis.

## **Invention and Innovation**

New business ideas come about in different ways. Some businesses are developed by people who already have a good understanding of their product. Others from people who use their product. Many businesses/products come from the research departments of existing companies who are looking to develop an innovative product. Think about how video games have moved from being relatively passive (Game Cube, PS2 etc) to becoming active, multiplayer experiences (Wii, Kinect)

### **Invention**

The discovery of new products is invention

### **Innovation**

The process of transforming an invention into a product.

### **Risk**

There is a lot of risk involved with invention and innovation. Much innovation leads to failure and gets abandoned. There is also a risk that someone will copy it.

### **Patents**

Registering a patent gives you the right to protection for your patented idea for 20 years. Patents are registered with the Intellectual Property Office

### **Copyright**

For intellectual products such as films, music and books copyright gives the original inventor the sole rights to produce, control and copy the work. Copyright protection can be registered with the Intellectual Property Office but gives much longer protection than a patent. Authors own copyright of their books for their lifetime and 70 years after.

### **Trademark**

A trademark is a registered name such as ADIDAS. A trademarked name cannot be copied.

## **Calculated Risk**

A calculated risk is about putting a numerical value or probability on the risk. Schools carry out risk assessment all the time and put numerical values on the risk. What is the risk of a student burning themselves on a bunsen burner?

## **Risks & Rewards**

When setting up a new business an entrepreneur will be prepared to take calculated risks. In their business plan they will have highlighted these along with the downsides and upsides of their business.

## **Downsides**

What can go wrong with your business, with your product, your service, your customers. A business owner should try and put a figure on what could be lost if things go wrong.

## **Upsides**

What can go well for your business. Would large sales volume lead to more discounted stock and greater profits?

## **Mistakes**

If after taking a calculated risk a business owner finds the downsides are more than the upsides this mistake could put them out of business. It is important for business owners to learn from their mistakes and build upon their successes for their next/continued venture.

## Enterprise Skills

An entrepreneur needs many skills to be successful -some of these are outlined on this page.

### Seeing Opportunities

Even the smallest opportunity is seized by an entrepreneur. Many successful entrepreneurs start their first small businesses in their school days by spotting an opportunity and seizing the chance to use it.

### Thinking Ahead

The ability to think ahead gives a business owner an advantage as they can plan for future changes in the business or even future enterprises.

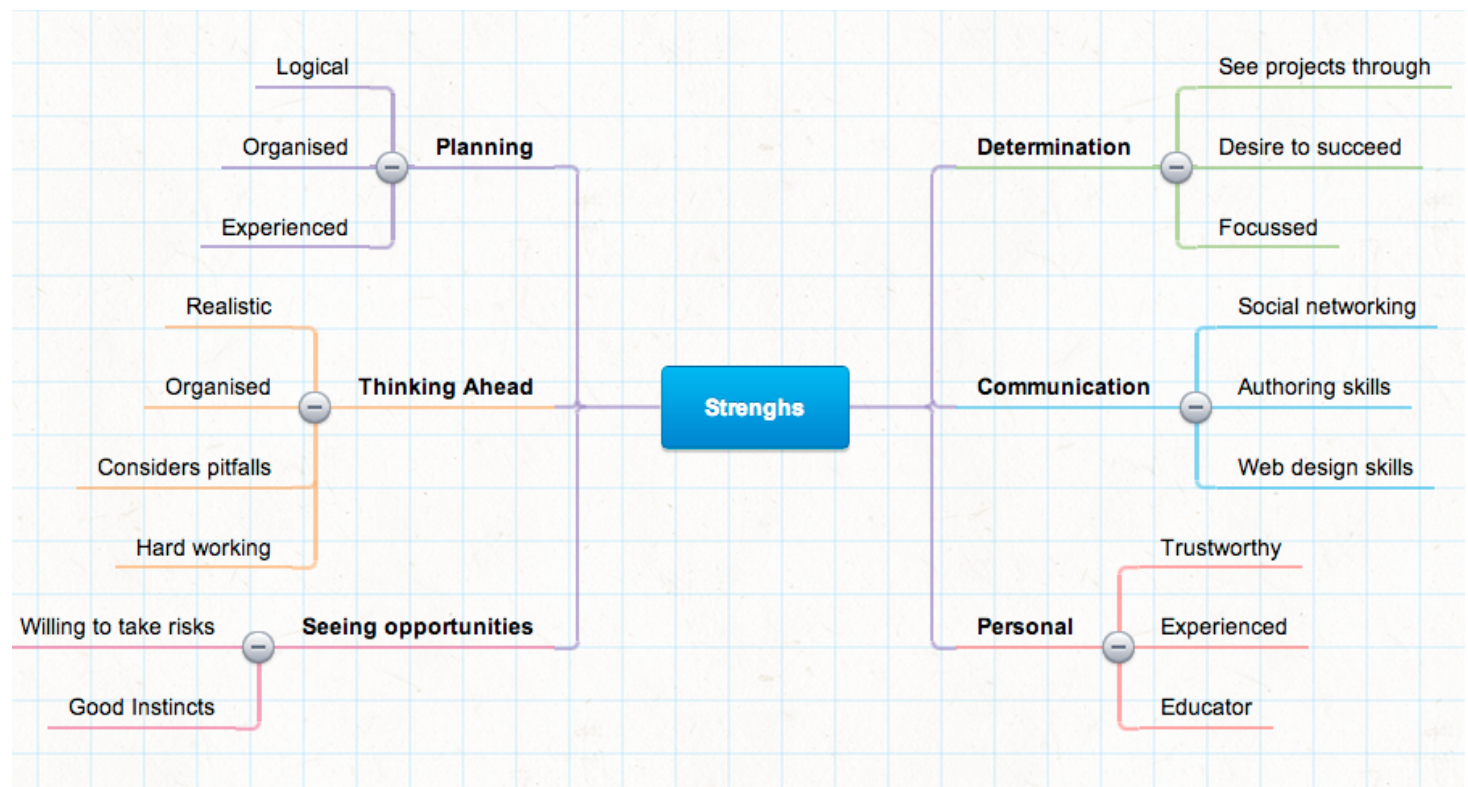
### Determination

Determination in the face of setbacks is an extremely important skill. Facing problems head on with a determination to overcome obstacles will help any business owner be ultimately successful.

### Planning

Careful planning is a real key to the success of any business. Good plans will have assessed risks and taken downsides into consideration. Consider the mindmap, its a very powerful tool for planning as it allows you to easily write down all of your ideas around a given topic.

A handy free mindmap tool - [www.mind42.com](http://www.mind42.com)





## Starting Up

This section covers starting up the business from the idea. It will take you through the financial and non- financial objectives and help with the planning stage of finance. Starting up the business is often the hardest part, it may involve leaving secure employment, borrowing money and having a big period of uncertainty in your life until you have the business up and running sucessfully.

## Objectives

Objectives are not always financially driven, whilst an entrepreneur may ultimately want to make a profit their initial objectives may be simpler such as being their own boss, or improving work/life balance. Some business are social enterprises, where the profits are a by product of the benefit to the community.

### Financial Objectives

Financial objectives are not merely to make a profit - when starting a business a profit is likely to be in the future. Financial objectives include.

#### Income

The business must provide an income for the entrepreneur, initially this may be less than they were previously earning in employment but in the long term this would be expected to rise.

#### Survival

The expenses at the start of any business make it hard to set up and turn a profit - initially survival through the first few months/years is a clear financial objective.

#### Security

Owning a business needs to provide long term security, although there is no risk of redundancy there is always a risk of bankruptcy.

#### Wealth

A business should over time become an asset which can be sold to generate wealth from the value of what has been built up. Such wealth would often be used to fund retirement

### Non-Financial Objectives

The non-financial objectives are likely to be far more important to an entrepreneur.

#### Independence

Owning a business gives independence from being an employee.

#### Control

Being your own boss gives a control over your life that you don't have as an employee, you choose how to organise your time

#### Challenge

Creating a business from scratch gives an entrepreneur the challenge of creating something successful from nothing.

#### Personal Satisfaction

Running a business can give great satisfaction and sense of achievement.

#### Helping Others

Social enterprises are set up with the main goal of helping others/communities.

## **Entrepreneurial Qualities**

There are lots of qualities shown by entrepreneurs - this page outlines the major ones.

### **Initiative**

Making the first move, spotting opportunities, acting early and being pro-active are all signs of initiative. Any entrepreneur will be a self-starter and take the initiative to set up the business

### **Risk Taking**

A business may succeed or fail - it is riskier to own a business than be an employee. You may need to borrow money, or put your assets up as security. Entrepreneurs need to be risk takers in order to succeed.

### **Determination**

It takes a lot of determination to set up a business, at the beginning there will be a lot of expenditure and then often a very small income until you turn a profit. Determination is what carries you through the difficult early stages.

### **Decision Making**

Any business owner must be willing to make decisions, make judgements and listen to advice. Only the business owner can be responsible for decision making.

### **Planning**

Good planning is essential for an entrepreneur, the original plans will become a business plan and then the day to day running of the business will require good planning and time management skills for both the entrepreneur and for them to direct their workers effectively.

### **Persuasion**

A good entrepreneur will often need to persuade customers, suppliers and staff to do what they want them to do – to work extra hard, to buy more product or to give a better discount.

### **Leadership**

Strong leadership skills help the entrepreneur to manage their staff and ensure that they follow their vision. Self confidence helps greatly with leadership skill

### **Luck**

A good slice of luck is great for any business, the economy doing well, your product becoming fashionable, maybe even your promotional video going viral!

## Estimating – Revenue, Cost & Profits

When estimating the revenues, costs and profits a good business owner would use a lot of what if questions to model different scenarios.

### Revenue

Revenue is the amount of income the business earns over a set period of time. They may be called *sales revenue*, *turnover* or *sales turnover*. To estimate revenues you need to predict how many sales will be made (or jobs completed) and what will be the average price that you will charge.

$$\text{Total Revenue} = \text{Price} \times \text{Quantity}$$

Or

$$\mathbf{TR = P \times Q}$$

### Costs

Costs are split into two parts

*Fixed costs* – what you have to pay regardless of number of sales/jobs. Fixed costs could include rent, loan repayment, wages etc

*Variable costs* – vary with sales/jobs. Fixed costs might include petrol for deliveries, gift wrapping etc

$$\text{Total Costs} = \text{Fixed Costs} + \text{Variable Costs}$$

Or

$$\mathbf{TC = FC + VC}$$

### Profit

The profit is the difference between Total Revenue and Total costs

$$\mathbf{P = TR - TC}$$

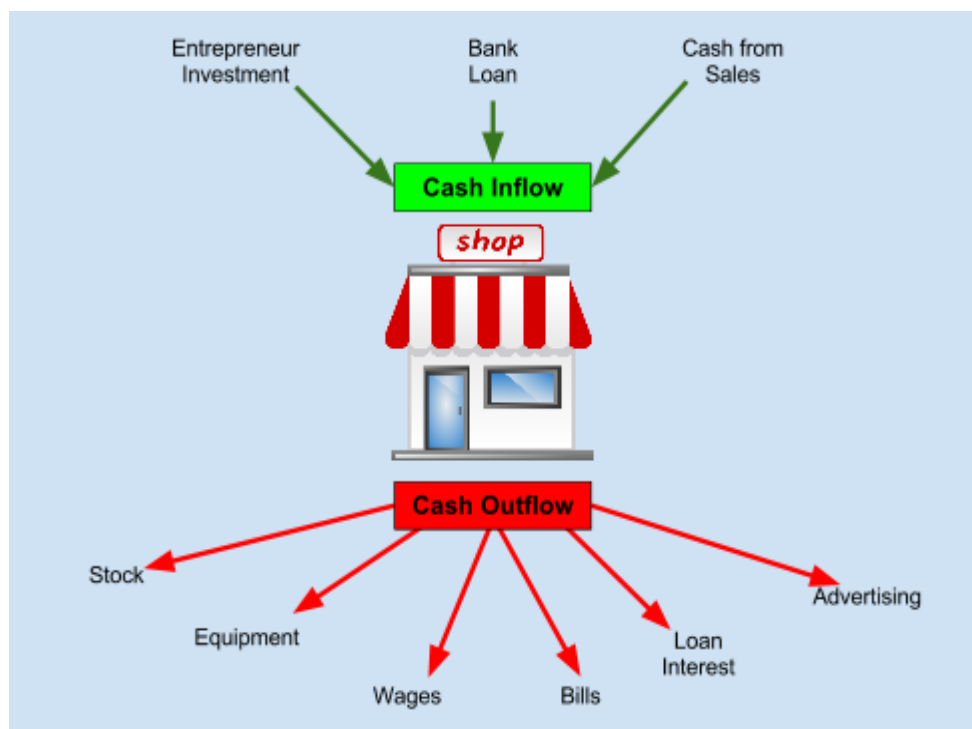
If the profit ends up as a minus figure it is a LOSS.

## Cash Flow Forecasting

Part of the planning stage of a business is to produce cash flow forecast to give a prediction of how cash will flow in and out of the business in the future. This forecast will help the entrepreneur decide if the business is viable and identify any areas of weakness and plan action accordingly.

### Cash Flow

Cash flow is the money going in and out of a business. It consists of inflows (money coming in) and outflows (money going out). The net cash flow is the inflow – outflow. Any business should keep copies of all receipts and invoices to properly account for their cash flow. Any business without sufficient cash flow will be unable to pay its bills/wages and will become insolvent.



### Cash Flow Forecasts

It is vital to plan ahead to make sure that a business will have sufficient cash to survive, the business may have good months and bad months. In the example below we see a start up business with a high initial stock cost and low ongoing costs, however this is a largely seasonal business and takings are higher in summer.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Receipts</b>	£550	£650	£600	£950	£1,750	£2,500	£3,250	£3,100	£2,800	£1,100	£800	£850
<b>Payments</b>	£2,400	£150	£125	£220	£340	£560	£665	£590	£475	£210	£195	£210
<b>Net Cash Flow</b>	-£1,850	£500	£475	£730	£1,410	£1,940	£2,585	£2,510	£2,325	£890	£605	£640
<b>Opening Balance</b>	£0	-£1,850	-£1,350	-£875	-£145	£1,265	£3,205	£5,790	£8,300	£10,625	£11,515	£12,120
<b>Closing Balance</b>	-£1,850	-£1,350	-£875	-£145	£1,265	£3,205	£5,790	£8,300	£10,625	£11,515	£12,120	£12,760

The cash flow forecast is -

- part of the business plan
- helps to show if action would need to be taken to avoid a cash crisis
- can be used at the bank to help get a loan

## Cash Flow Problems

Good forecasting can predict cash flow problems and allow a business to make plans for these problems. If there is a point in the future where the cash flow will become negative this would mean that suppliers couldn't be paid, staff couldn't be paid and the business would become insolvent. Should this be a temporary situation the business owner could plan to inject cash into the business and remove it again when the problem is resolved.

## Cash Flow Factors

The flow of cash in and out of a business can be affected by a number of factors.

- **Seasonal Variations** - some business have massive variations in sales at different times of the year. A toyshop would be expected to make a lot of sales towards the end of the year as Christmas approaches. A florist would expect to be busy in summer when weddings were happening.
- **Changing Costs** - prices go up over time, particularly for petrol/diesel. Wages also increase over time and often suppliers increase their costs.
- **Stock changes** - keeping an overstock costs a business money if they are buying in more supplies than they sell. Good forecasting allows a business to minimise the amount of stock that is kept. Major supermarkets keep hardly any stock "out back" they rely on just in time delivery instead. Less overstock means less products spoiling and having to be thrown away.
- **Changing Credit Terms** - typically businesses pay suppliers using trade credit, within 30 days. A business might increase this credit period to 60 days to prevent a cash flow crisis.

## SWOT Analysis

**Strengths**

**Weaknesses**

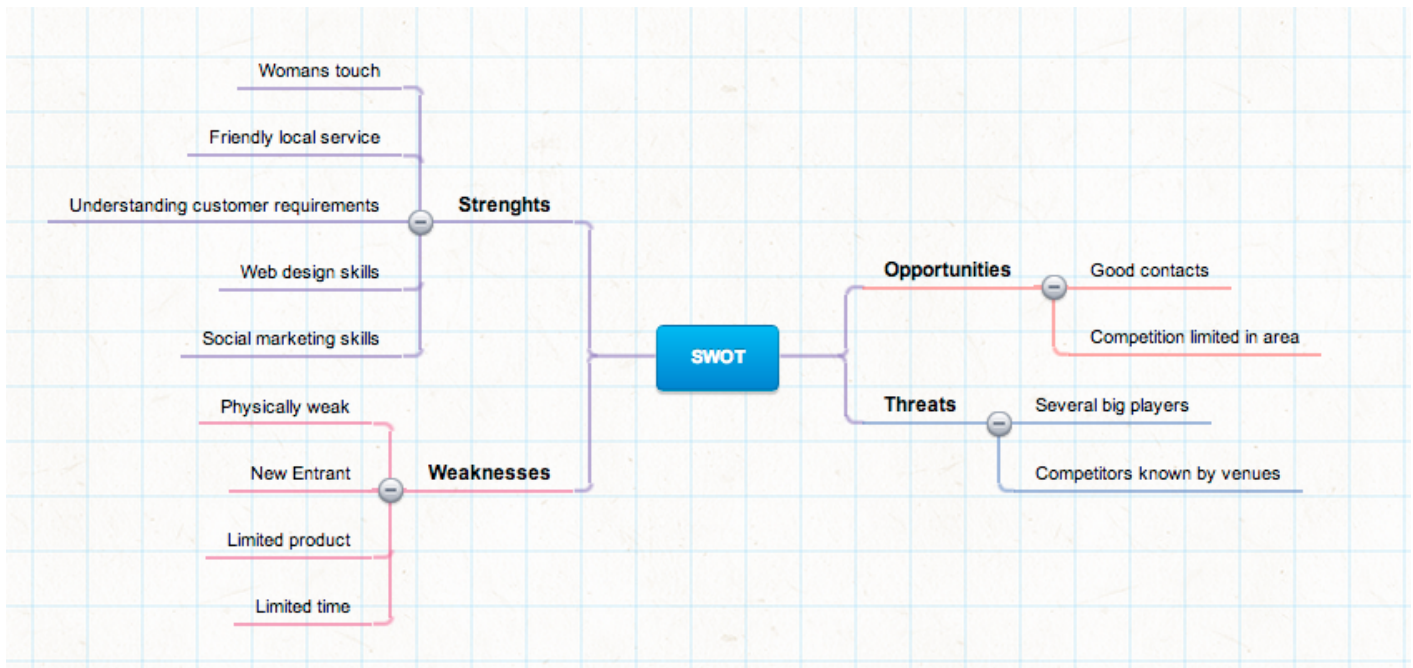
**Opportunities**

**Threats**

Strengths and weaknesses are internal factors and affect the present (what are you good at, what do you struggle with?)

Opportunities and threats are external factors and may change over time (is there a gap in the market, what are your competition doing?)

A SWOT analysis may be created easily in a mindmapping application. Try Mind 42 at [www.mind42.com](http://www.mind42.com)



## The Business Plan

Any business starting up should develop a business plan. This documents show plans for development as well as forecasting for sales, costs & cash flow. Businesses starting without a business plan are less likely to survive the first few years of trading.

### What to include

If you are looking for finance the banks you are approaching will tell you what they expect to see in your business plan. It should include details of production/supply, resources, marketing and finance. The list below would be a good start for a business plan.

- Business details - name, history, location, owners details, legal structure
- Equipment - what equipment is needed and what it will cost
- Premises - size, location, cost
- Suppliers - details of your suppliers
- Personnel - employees and their salaries
- Product/Service - details of testing and market research
- Production - what production methods will be used (if making a product)
- Marketing - how you intend to market your product/service
- SWOT Analysis - how your product will utilise its strengths and minimise weaknesses
- Costs & Revenues - what your total costs and revenues are estimated to be
- Cash Flow Forecast - your predictions for the first 12 months
- Finance - your finance sources for your start-up

### Purpose

The purpose of the business plan is to give all stakeholders a clear picture of the expectations for the business and the direction the business will take. For the entrepreneurs writing the business plan encourages them to think clearly about all areas of running a business and look clearly at all the costs and any potential pitfalls. For financiers the business plan shows them that the business is a viable proposition and that it will be able to maintain a good cash flow and keep up repayments on loans. A well written business plan can also be shown to existing successful entrepreneurs who may be able to give advice on the feasibility of the business.



## Finance

All business start-up's need to be financed. Some entrepreneurs may be able to finance their own projects or gather finance from their existing projects. Others will need to obtain finance from outside the business.

### Long-term Finance

Any finance borrowed or invested for more than a year is called long-term finance.

- Share Capital - Shares in the business are issued in return for investment - the amount raised is the share capital
- Loans - Money is borrowed and repaid with interest, usually secured against assets or property (mortgage)
- Venture Capitalists - People who invest in a business with a view to selling their shares for a profit once it becomes successful
- Retained Profit - Money retained by the business to re-invest in its future
- Leasing - Renting equipment or vehicles rather than buying them outright
- Grants - Grants are given by governments and charities to help businesses start up, they do not usually have to be repaid but may have conditions attached

### Short-term Finance

Finance which needs to be repaid quickly, usually in under a year is referred to as short term finance.

- Overdraft - Taking your bank account into the "red" by an agreed amount and paying interest for that facility
- Trade Credit - Goods bought are invoiced and do not have to be paid for immediately - usually 30 days are given but this can be stretched
- Factoring - A Factor buys your invoices and pays them immediately then keeps the money when they are paid by your customers - typically a factor will pay 90% of the amount to you and keep 10%

## Effective Start-up's

To ensure the start up is effective the entrepreneur must work very hard in the beginning to make sure the business is set up fully in compliance with legislation and minimise their risk by choosing the right company type. It is also highly important to be totally customer focused and get the marketing mix right. Start-up's often fail within the first year when the entrepreneur has overlooked one of these elements.

## **Everybody Has A Customer**

All business need customers to survive and must constantly strive to meet customer needs. To do this effectively the start-up should look closely at who their customers are and develop a profile of a typical customer.

### **Customer Focus**

To survive a business must have enough customers willing to pay a high enough price to allow the business to make a profit. So the business should focus on what the customer wants to ensure they are meeting their customer needs, which may change over time.

### **Identifying Needs**

A business must understand what the customer wants from THEIR product. Primark and Hollister both sell clothes but the customer has different ideas about each product and the companies understand this. The Primark customer wants to have a wide choice of budget priced clothes so that they can change them as fashion changes, and for this they are willing to shop in huge brightly lit stores where the stock is piled high. The Hollister customer wants to find shopping an experience to enjoy and the stores reflect this in their look and feel to let the customer know they are buying a quality brand.

### **Anticipating Needs**

To keep on top a business must understand what its customers want in advance, they must follow fashions and try and anticipate the changes in customer needs.

### **Meeting Customer Needs**

Having identified and anticipated needs the business must meet them with a robust product at the correct price. This means using the right quality of materials to meet the customer requirements whilst keeping the costs down and still producing a good quality of product.

## The 4 P's

Businesses must consider the marketing mix which helps them sell their products. This is known as the 4 P's

- **Price**
- **Product**
- **Promotion**
- **Place**

### Price

The price has to reflect the value that the customer puts on the product. An extremely high quality product made with the best materials may sell for a high price. However if the customer is looking for a value type product then the materials need to be cheaper and this is reflected in the price.

### Product

To get the product right the business needs to think again about the customer needs. The product must do the job required and meet the price the customer is willing to pay. Again the market segment that the business is servicing has to be considered.

### Promotion

Promotion means making the customers aware of the product and persuading them they want to buy it. Promotion might include advertising, sales promotions, social marketing, word of mouth and a whole range of other options.

### Place

The product has to be available to customers where they want it and when they want it. Lots of businesses are seasonal or have times of year when sales boom. Think about how the turnover of a toyshop will be fairly steady all year and the increase massively as Christmas approaches. If your product were a new toy you would want to launch it in time for Christmas, not in January.

## Company Types

When setting up a company the question of liability has to be considered. A company can have limited or unlimited liability. Liability is the legal responsibility for debts. With unlimited liability there is no difference between the business and the owners finances, if the business becomes insolvent then the owners assets may have to be sold.

### Sole Trader

The sole owner of a business is a sole trader. They have unlimited liability but there is no legal set up and all the profits belong to the owner. A Sole Trader has to register the business with HMRC for tax and will send self assessment tax returns each year.

### Ordinary Partnership

An ordinary partnership is the same as a sole trader but there must be a nominated partner who is registered for the tax returns and sends in the self assessment each year. An ordinary partnership has unlimited liability.

### Limited Company

Most small Limited Companies are limited by shares. An example would be issuing 1000 shares worth £1 each to one owner. If the company goes into insolvency the owner would have to repay the value of his shares £1000 - but that would be the end of their liability. A Limited Company has to be set up with companies house, registered with HMRC and submit statutory accounts, an annual return and a company tax return ANNUALLY. The accounts of a limited company are public and can be looked up by anyone. The company must register for VAT if you expect its takings to be more than £77,000 a year.

## **Legal Start-up Issues**

There are few legal considerations to think about when starting a business. Mostly these are just common sense related and require you to do little except keep records and pay taxes.

### **Business Name**

Your business needs a name and although this doesn't have to be unique - it must be different from existing trademarked names. You can't be Tesco. If you are starting a limited company the business name must be unique although you can register under one name and trade as another. Your name shouldn't be too similar to other businesses in your area although lots of businesses trade under rather common names (search for Acorn).

Your name could promote your business by describing what it does (webuyanycar.com) or might simply be a derivation of your name, or initials such as AMSTRAD (Alan Michael Sugar Trading).

### **Keeping Records**

Record keeping is a must for any business which is going to be successful. in a service industry it is good practice to keep details of your customers as you may want to contact them in the future with new products, special offers etc.

The law requires you keep good financial records of every transaction associated with your business. These will be used to calculate your taxes and also for you to keep an eye on the profitability of your business.

## **Tax Issues**

All businesses are required to pay taxes, how much and which taxes depends on the profitability of your business.

### **VAT**

A business only has to pay VAT if its sales are more than £70,000 a year. Not having to pay VAT gives a small business an advantage over a larger one as it does not have to charge an extra 20% on its goods or services. Once a business is paying VAT it is important to keep good records as it can claim the VAT back on equipment/services which it buys in.

### **Income Tax**

As a sole trader the business owner must pay tax on their earnings. If the business has any employees it is also responsible for taking their income tax from their wages and passing it to HMRC.

### **National Insurance Contributions (NIC's)**

NIC's have to be deducted from any workers earnings, along with their income tax. A business also has to pay NIC's for each employee, which is a percentage of their wages. A Sole Trader pays a flat rate plus a percentage of net earnings.

### **Corporation Tax**

Limited companies have to pay corporation tax on their profits.

## **Customer Service & Satisfaction**

Customer service can be more than dealing with the initial sale, it may also encompass dealing with problems or complaints.

### **Customer Service**

A positive experience when an initial sale is made is great customer service as they will feel their expectations have been met. Customer service covers

- Treatment
- The quality of the product
- Staff knowledge
- Staff friendliness
- After sales service
- Complaints procedures

### **Customer Satisfaction**

Satisfied customers talk about their positive experiences, make recommendations, write reviews and in general help out small businesses through word of mouth. Customer satisfaction leads to a very good, free, version of advertising.

### **Repeat Business**

Many customers will buy again and again from the same business. There are a number of ways you can try and gain repeat business.

- Cheaper prices
- A good online experience
- Effective customer service
- Promotions for existing customers



## Employment

Any successful business will probably need staff at some point. Recruiting, training and motivating staff can be an important area that an entrepreneur is inexperienced at, if you want to retain good staff motivation is very important.

### Recruitment Process

The recruitment process would start with the creation of the following documents

- Job Description - An overview of the duties involved
- Person Specification - A description of the personal skills expected
- Job Particulars - Information about the business, conditions of the job and how to apply
- Job Advert - A short advert giving brief details and how to get further information
- Application Form - A form for the applicant to complete when applying (sometimes this is not created but applicants are asked to send a CV and covering letter instead)

The job may be advertised in a number of places, the job centre is a free option, local papers are a low cost option, often jobs are advertised on social media too.

### Selection

The recruitment process outlined above will hopefully get applicants for the job and the next stage of this process is to find the right person for the job. Often there will be a lot of applicants and the first thing to do is draw up a shortlist by reading through the applications and looking for those with the right experience, ruling out anyone who seems to have not “sold” themselves well in their application (poor spelling, improper sentences, lots of irrelevant comments). Once the shortlist has been drawn up those on it can be interviewed. The final stage is to take up references from the successful candidate.

### Training

It is important to give staff regular training not only on the things they do everyday but on areas of your business that are outside their role, if they are well trained they will be able to help out when others are absent and you may also be able to promote from within your own organisation when vacancies occur. The investment in training also helps the employee to feel valued and motivated - indeed some of the best motivated employees do further training in their own time (maybe learning to use new software).

### Motivation

Motivation can come in various forms and if your staff are well motivated they will perform well and develop good loyalty to your company. Motivation can include

- A fair wage
- Good working conditions
- Informed workers
- Empowered workers
- Sympathy towards family issues
- Consistent treatment

## **Employment Law**

There are a number of laws that have to be followed in relation to employment and the recruitment process. These laws are constantly changing and being updated so it is wise to keep abreast of them.

### **Discrimination**

Employees cannot be discriminated against on the grounds of age, sex, race or disability.

### **Equal Pay**

Employees must be paid the same for doing the same job.

### **Health & Safety**

Employees must be protected from accidents under health & safety laws.

### **Pension**

Access to a pension scheme must be provided (although at present employers do not have to make contributions).

### **Unfair Dismissal**

Once an employee has 12 months of service they are protected against unfair dismissal.

### **Maternity Leave**

Women are allowed time off to have children and their jobs have to be held open.

### **Working Time Directive**

Employees are not allowed to work more than a set number of hours per week

### **Minimum Wage**

There are currently three aged based national minimum wage rates and an apprentice rate, which are usually updated in October each year. The rates that apply from 1 October 2012 are as follows:

- for workers aged 21 years or more: £6.19 per hour
- for workers aged 18 to 20 inclusive: £4.98 per hour
- for workers aged under 18 (but above compulsory school age): £3.68 per hour
- for apprentices aged under 19: £2.65 per hour
- for apprentices aged 19 and over, but in the first year of their apprenticeship: £2.65 per hour

Full information on minimum wage can be found here

<http://www.hmrc.gov.uk/payroll/day-to-day/nmw.htm>

## Economic Context

All businesses are affected by economic factors, no matter how small. The most obvious interactions are oil prices and interest rates but in reality a business may also be affected by exchange rates, and different stages of the business cycle.

## Supply & Demand

Commodity markets such as oil, coal, electricity, wheat, milk etc all affect a diverse range of businesses

### Supply

The amount that sellers are willing and able to sell at a given price. The supply of wheat for example often depends on weather conditions, pests, diseases.

### Demand

The amount of a product that buyers are willing and able to buy at a given price, the demand for wheat is always great as it is used to create a lot of foods and feeds for livestock.

### Shortage

If there is a shortfall between supply and demand a shortage is created and the prices rise.

### Surplus

If the supply exceeds the demand then there is a surplus and the prices will fall accordingly.

### Market Differences

Although the price of a commodity such as oil fluctuates wildly over a given period this is not always passed onto the consumer. In a goods market consumers expect prices to stay the same so although the changing price of oil will affect the costs of any product on a shelf prices are likely to stay the same, which mean profit margins change in the consumer market.

### Commodity Prices & Planning

Cash flow forecasts should take into account the changing prices of commodity. In the winter oil prices tend to rise and this should be accounted for in any cash flow forecasts, if oil prices rise, delivery prices rise therefore cash flow will change.

### Energy Costs

Energy costs affect all businesses. The rising prices of gas, oil and electricity affect us all and businesses can be affected even more as their costs can spiral and lead them to having to increase their prices or reduce their profit margins. Many businesses have to absorb the costs of rising energy prices - for example a coffee shop will not increase the price of its latte every time the electricity costs rise although they use a lot of electricity to make the latte. Delivery companies though will often pass on the costs of diesel rises as their profit margins are small to start with.

## **Interest Rates**

Interest rates have an effect on all businesses even those who haven't borrowed as they will affect prices across the whole market as they affect consumer spending. In the case of most small businesses they rely on loans or overdrafts which they pay interest on. Using bank loans for long term credit and overdrafts for short term credit - as we looked at when we were discussing cash flows.

### **The Bank of England**

The Bank of England sets the interest rate for the country as it is the central bank. This is NOT the rate of interest a business will pay on their loans or overdrafts but this interest rate affects the rate set by the banks on loans and overdrafts.

### **Fixed & Variable Interest Rates**

The interest rate changes imposed by the Bank of England only affect a business if it has a variable rate on its loans/overdrafts. It is usual for overdrafts to be subjected to variable interest rates, therefore when the Bank of England raises interest rates so does the businesses bank. It is usual for loans to be fixed rate, therefore the changing interest rate does not affect the loan.

### **Savings**

A small business may have savings that they will use as a contingency fund in the event of a cash flow crises. As savings earn interest then the changing interest rate affects the amount of interest earned on savings.

### **Consumer Spending & Interest Rates**

Interest rates affect consumer spending as many consumers are also borrowing. When interest rates are high then consumer repayments are high and they may have less disposable income to spend on goods and services.

## Exchange Rates

Exchange rates are the rates at which one currency is changed into another. Exchange rates affect all businesses as it is impossible to operate without moving outside the domain of your own country. For instance oil prices are charged in US Dollars so the fluctuation of the exchange rates affect the prices of oil and no business operates without using oil in some manner.

### Impact of a Rise in Value of the Pound

- Firms exporting goods will sell less as they are more expensive
- Firms competing against imported goods will lose sales as they are unable to compete on price
- Firms importing materials will see their costs fall and profits rise

### Impact of a Fall in Value of the Pound

- Firms exporting goods will sell more as their goods are cheaper
- Firms competing against imported goods will gain sales as the imported goods are more expensive
- Firms importing goods will see their costs rise and profits fall

## The Business Cycle

Economies move at different rates, there will be years when they rise and years when they slow down and the tendency for these different economic rates is called the business cycle.

### The Economy

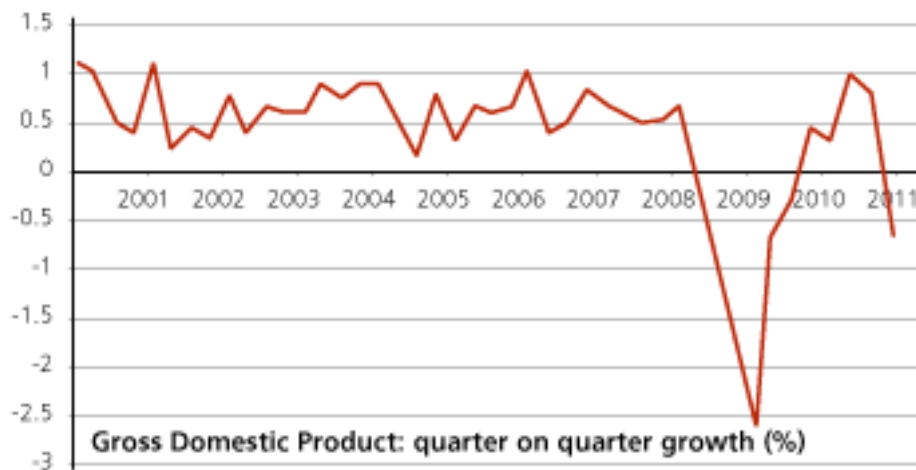
The economy is millions of people making decisions to buy goods and service creating economic activity within a country. When people are confident about the future, job security and their pay rising steadily we see economic growth. When they are less sure we see the economic growth slow down and then if it slows for 2 successive quarters we see a recession.

### The Effect on Businesses

During a “boom” (strong period of economic growth) people are confident to buy goods and services from the high end of the market, cars, houses, electrical goods etc. This cannot last forever though and the activity slows down seeing less people buying these high price items. In this downturn the market for food may not be affected but the market for luxury goods is likely to shrink as people cut back. If businesses start to suffer and there are job cuts then people might cut back even further to affect more of the market. If the slowdown becomes a recession then some types of business are more likely to suffer - those at the luxury end of the market. Rising from a recession takes a long time so this part of the market will remain weak.

### The UK's economic performance over the past ten years

Source: ONS. UK output, income and expenditure statistical bulletin, 4th quarter 2010.  
GDP is the chained volume measure.



## Stakeholders

Stakeholders are the individuals or groups that have an interest in a business. Any business decision has an effect on stakeholders - but it can be different on each stakeholder. A business may face problems meeting the demands of stakeholders.

**Owners** - Want to be successful so they can earn a good living or even sell at a profit

**Managers** - Want a firm to be successful for job security and a good salary

**Workers** - Want a firm to be successful for job security and good working conditions

**Customers** - Want a firm to give good reliable service and a quality product at a fair price

**Suppliers** - Want the firm to continue buying from them

**Government** - Wants to collect taxes and ensure the firm follows the law

**Community** - Wants jobs provided and the firm to be good neighbours





## Key terms

Added Value	The increased worth that a business creates for a product
Application Form	The form an applicant fills in with their personal details and career history
Bank of England	The central bank
Blue sky thinking	Participants are encouraged to think of lots of ideas about an issue or problem
Brand	A named product which the customers see as different from others
Brand Image	The idea/impression/image that customers have in mind about the brand
Business Cycle	Fluctuations in economic activity over a period of time
Business Plan	The plan for the development of a business giving forecasts of cash flow, sales, costs etc
Calculated Risk	The probability of a negative event happening
Cash	Money in the bank
Cash Flow	Cash going into and out of the business
Cash Flow Forecast	Prediction of how cash will flow through a business over a period of time
Closing Balance	The amount in a business at the end of a period
Commodities	Raw materials such as oil, wheat, electricity, soya
Commodity Markets	Where buyers and sellers meet to exchange commodities
Companies	Businesses whose shareholders have limited liability
Competitive Advantage	A distinctive and defensible advantage that enables a business to perform better than its rivals
Consumer	The person who uses a product
Copyright	Legal ownership of material such as books, music, films
Corporation Tax	A tax on the profits of limited companies
Creative thinking	Coming up with new and unique ideas
Cumulative Cash Flow	The sum that flows into a business over time

Curriculum Vitae	A list of the main details of the person and their career history
Customer	A person who buys goods or services from a business
Customer Needs	What the customer wants or desires when buying a product/service
Customer Satisfaction	How satisfied is the customer with the product or service
Customer Service	The experience a customer gets when dealing with the business
Deliberate Creativity	Intentional creation of new ideas through recognised techniques
Demand	The amount consumers are buying
Dividend	A profit share given to shareholders
Downsides	What can go wrong with a course of action
Economic Activity	Amount of buying and selling over a period of time
Economic Growth	Rises in the rate of economic activity in an economy
Economy	The economic activity of a country
Enterprise	An individual or business taking a risk, showing initiative and/or undertaking new ventures
Enterprises	Another word for businesses
Entrepreneur	A person who owns and runs their own business(es) and takes risks
Exchange Rate	The price of foreign currency
Export	The sale of a good or service to a foreign buyer
Factoring	A business received cash immediately from invoices in return for paying a fee
Financial Objectives	Objectives expressed in monetary terms, such as making a profit, earning a set income or increasing wealth
Fixed Costs	Costs which remain constant regardless of sales
Fixed interest Rate	A rate which stays the same over an agreed period
Focus Group	People brought together to discuss a product or service
Franchise	The right given by one business to another to sell goods or products using its name
Franchisee	The business that agrees to manufacture, sell or distribute the branded product/service that has been licensed

Franchisor	The business that has licensed its product/service to be sold
Goods	A physical product
Goods Markets	The market for everyday products
HMR&C	Her Majesties Revenue & Customs, the authority which collects taxes
Import	The purchase of a good or service from a foreign seller
Income Tax	A tax on the income of workers and Sole Traders
Inflow	Receipts, cash coming into the business
Innovation	Transforming inventions into products
Insolvency	A business that can't pay its debts
Interest Rate	The amount charged to borrow money or paid on savings
Invention	The discovery of new processes and potential new products
Job Applicant	Someone who applies for a job
Job Description	An outline of the duties involved in the job
Lateral thinking	Thinking differently to try and find new and unexpected ideas
Leasing	Renting equipment or premises
Legislation	The law
Limited Company	A registered business with limited liability
Limited liability	Shareholders are liable up to the limit of their investment in the company
Loan	Borrowing money and repaying with interest
Long-term Finance	Money borrowed or invested for more than a year
Market research	Gaining information about customers, competitors and market trends
Market segment	Part of a market containing a group of customers with similar buying habits such as age or income
Marketing Mix	Combination of factors that help the business market to their customers
Markets	Where buyers and sellers exchange goods and services
Mortgage	A loan where a property is used as security
Motivation	The desire to do the job well and help the business

Net Cash Flow	Receipts - payments
NIC's	National Insurance Contributions - a tax on the earnings of workers & sole trades has to be paid by both the individual and the employer
Non-Financial Objectives	Objectives such as personal satisfaction, increased work life balance
Opening Balance	The amount in a business at the start of a period
Ordinary Partnership	Two or more individuals who own a business jointly
Outflow	Payments, the cash flowing out of the business
Overdraft	Borrowing from a bank account up to an agreed limit and paying back with interest
Patent	Registered ownership of an invention or process
Payments	Cash flowing out of a business
Person Specification	A description of the qualities expected in the person who does the job
Personal Savings	Money that an individual has saved
Place	The way the product is distributed
Price	The price of the product
Price Makers	Firms that dictate the prices (within the law of demand)
Price sensitive	When the price is important in the decision to buy or not to buy
Price Takers	Firms that take the prices offered
Primary research	Gathering new information which has not been collected before
Product	Making the product meet customer needs
Product range	A group of similar products made by a business
Promotion	How to market your product to your customers
Qualitative data	Information about opinions, judgements and attitudes
Quantitative data	Data which can be expressed as numbers and statistically analysed
Questionnaire	Questions asked to gather data
Receipts	The flow of cash into the business
Recession	Negative economic growth for 2 successive quarters

Records	Paper based or computer files should be kept of all transactions
Recruitment	The process of finding and employing new staff
Repeat Purchases	Past customers making a further purchase
Respondents	Those who answered questions
Retained Profit	Profit kept back and used for further investment
Risk	A chance that loss or damage could happen after making a decision
Sales Turnover	Income received from selling goods/services over a period of time
Sales Volume	Number of products/services over a period of time
Secondary research	Researching existing information which has been gathered by others
Security	Assets owned by a business which are used to guarantee a loan
Services	A non-physical product - such as a bus ride
Share	A part ownership of a business
Share Capital	The monetary value of a company which belongs to shareholders
Shareholders	The owners of a company
Short-term Finance	Money which needs to be repaid quickly, in under a year or less
Shortage	When demand is greater than supply
Social Enterprise	A business set up primarily to benefit a community
Sole Trader	An individual who owns a business
Stakeholder	An individual or group who have an interest in a business
Stock	Products/materials that a business holds
Supplier	A business which supplies products to another business
Supply	The amount sellers are offering for sale
Surplus	When demand is less than the supply
Survey	Research undertaken by asking questions
SWOT	Strengths, Weaknesses, Opportunities & Threats
Total Costs	Both fixed and variable costs
Trade Credit	Where goods are supplied on invoice terms and paid for after a set period

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Trademarks	Registered symbols/signs or features of a product or business
Unique Selling Point (USP)	A characteristic of the product/service that makes it different from others
Unlimited Liability	The legal obligation for the owner of the business to pay off all debt
Upsides	Advantages of a course of action
Variable Costs	Costs which change according to volume of sales
Variable Interest Rate	A rate that changes over time in response to the rate set by the central bank
VAT	Value Added Tax - paid on sales
Venture Capitalist	An individual or company who buys shares with a view to selling in the long-term